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C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 002918

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TAGS: [KJUS](#) [PGOV](#) [BK](#)

SUBJECT: COVIC CONVICTED

REF: A. 05 SARAJEVO 632

[1](#)B. 05 SARAJEVO 778

Classified By: DCM Judith B. Cefkin, reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY AND COMMENT: On November 17, Dragan Covic, ousted Croat member of the Bosnian Tri-Presidency and Croatian Democratic Union (HDZ-BiH) President, was convicted on one count of abuse of office. Covic was taken into custody immediately to serve his sentence of five years. Covic's six co-defendants, including newly-elected Bosnia and Herzegovina House of Representatives delegate and President of the Work for Progress (RzB) party, Jerko Ivankovic-Ljjanovic and his three brothers, were acquitted of all charges. Covic and the prosecutor both have the right to appeal the verdict and the sentence, and Covic is expected to exercise that right. Covic, already weakened by charges he stole the HDZ-BiH presidential election last year and was responsible for the defection of HDZ-1990, could be removed as HDZ president to pave the way for party reunification. If the two HDZs reunite, it could spell greater difficulties for convincing Croat parties to vote for the April constitutional reform package. END SUMMARY AND COMMENT.

CASE BACKGROUND

[1](#)2. (U) In March, 2005, Dragan Covic, then Croat member of the Bosnian Tri-Presidency and President of HDZ-BiH, was indicted by the Bosnian State Prosecutor for abuse of office and accepting bribes while he was the Federation Minister of Finance (1998-2000). On September 19, 2006, the indictment was amended and the trial held on the basis of three counts of abuse of office and exceeding official authority. The charges revolved around Covic helping the Lijanovic brothers' meat-packing company avoid import taxes and other levies depriving the Federation budget of more than 38 million BAM. The charges alleged that in the summer of 2000, Covic responded to a request from the Lijanovic company requesting an interpretation of the customs law that would allow them to avoid payment of special import taxes. Covic, in his capacity as Finance Minister, allegedly issued a binding instruction to the Federation Customs Administration, ordering it not to apply a special import tax on Lijanovic company imports of boneless chicken parts. Covic's actions violated the Law on Foreign Trade Policy, which specifies that the Foreign Trade Ministry, not the Federation Finance Ministry, has jurisdiction over import levies. The Lijanovic company also falsely declared on its customs declarations that it was importing unprocessed meat when, in fact, it was importing finished products.

THE VERDICT

13. (U) The prosecution was unable to prove Covic wrote the illegal order, or personally profited from providing favorable treatment to the Ljijanovic company. He was convicted only of the final charge, that after repeated warnings from the Ministry of Foreign Trade and many reports of irregularities by customs officials, Covic refused to withdraw the illegal order. Such action, the court found, amounted to abuse of office, and Covic received a sentence of five years. Covic faced a possible sentence of three to fifteen years. The verdict was handed down by a three judge panel, including an American, Bosnian and Belgian judge. The prosecution was lead by a Canadian secondee. Covic was taken into custody to immediately begin serving his sentence. Covic's six co-defendants, including Party of Work for Progress (RzB) President and newly-elected member of the House of Representatives Jerko Ivankovic-Lijanovic and his three brothers, were acquitted on all counts, because the prosecution failed to prove the Lijanovic company sought or received Covic's assistance to circumvent import tax laws.

THE FUTURE

14. (C) The HDZ party statute contains no specific provisions that require Covic to step down as party president as a result of the conviction. He could, however, be brought before the party's "High Court of Honor," composed of high-ranking party officials nominated by Covic and confirmed by the party congress. Covic is the chair of the Court of Honor, but would have to recuse himself from his disciplinary

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procedures. Covic's past behavior suggests he may attempt to cling to power as long as possible. Covic refused to step down from the Tri-Presidency after being indicted (he was forcibly removed by HighRep Paddy Ashdown last May), and refused to resign the party presidency after accusations of election irregularities. Should Covic refuse to resign, it is unclear how HDZ disciplinary proceedings would proceed, as any party tribunal would contain hand-picked Covic allies. The leadership of the breakaway HDZ-1990 tell us they are confident Covic will be forced out and the two parties will reunite under Bozo Ljubic (HDZ-1990's president and Covic's opponent in last June's HDZ presidential election). However, Ljubic and his allies have predicted Covic's demise before and have underestimated his staying power.

15. (C) COMMENT: If Covic resigns or is ousted, HDZ-Croatia and the nationalist wing of HDZ-BiH could push the party toward reunification with HDZ-1990. Alternatively, Covic could manage to hold on to the party presidency, but with diminished influence over day-to-day operations and decision-making. In such a scenario, we would expect HDZ's right wing to exert more influence over choosing coalition partners at all levels of government, as well as on the selection of delegates to the House of Peoples. Such an outcome would benefit HDZ-1990 in the short term, and over the long term would present challenges for advancing U.S. objectives in Bosnia, including constitutional reform. Ironically, although this is a positive step in the battle against corruption, it may have the unintended side effect of benefitting nationalist forces among Bosnian Croats. END COMMENT.
MCELHANEY